3-2009

How to Distinguish Smart Big Moves from Stupid Ones

Paul Strebel

Anne-Valerie OHLSSON-CORBOZ
Singapore Management University, avohlsson@smu.edu.sg
DOI: https://doi.org/10.1108/10878570910941181

How to distinguish smart big moves from stupid ones

Paul Strebel and Anne-Valérie Ohlsson

Paul Strebel (Strebel@imd.ch) Sandoz Family Foundation Professor at IMD, Director of the program for High Performance Boards, and IMD Research Associate Anne-Valérie Ohlsson (Anne-Valerie.Ohlsson@imd.ch) offer more examples and analysis of big moves and the associated ego traps in their book *Smart Big Moves: The Story Behind Strategic Breakthroughs* (FT Prentice Hall, 2008).

Big moves, in the form of strategic initiatives with a major commitment of resources to achieve a new goal, are pivotal points in the history of companies. When top executives undertake dramatic shifts in direction that go well beyond incremental experimentation or continual adaptation in terms of the resources involved, their decisions can make or break a company. The risks of making a catastrophic misstep cannot be ignored, because longitudinal case studies show that even the most successful companies sometimes undertake stupid big moves from which they have difficulty recovering.

Our research indicates that there are five classic types of big move, each corresponding to a different position on the corporate performance curve (see Exhibit 1):

- Finding a new game.
- Going for growth.
- Getting into shape.
- Relaunching growth.
- Restoring profitability.

The timing of the need for one of these big moves is unpredictable. Corporate performance does not simply conform to the traditional s-curve of the product life-cycle model. This is because performance curves result from the interplay of many different external and internal growth drivers.

Too often big moves prove to be misguided, especially when they are overly influenced by the egos of top corporate leaders and not subjected to astute strategic thinking and critiquing. To avoid a corporate disaster and increase the chances of a smart and ultimately successful big move there are six critical questions that must be answered honestly and unequivocally by managers.

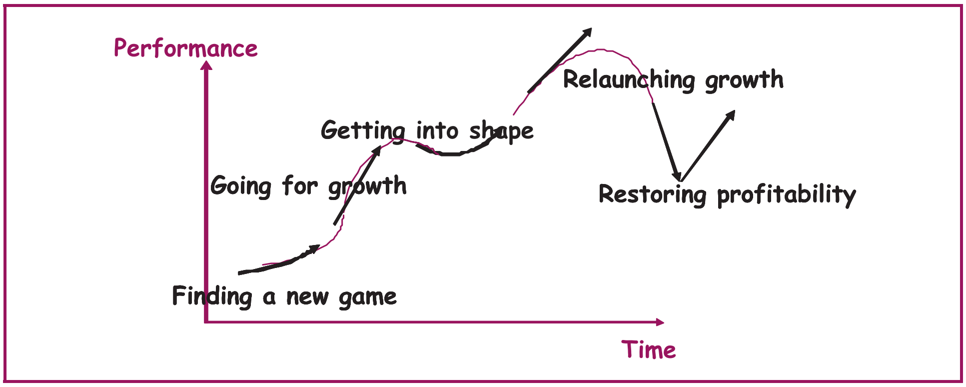
Question 1: What is the key to success in your move?

Each of the moves has critical success factors that must be addressed by the activities in the implementation plan. One of management's common errors, especially in larger companies, is instigating too many strategic projects that drain resources away from the activities that are critical for the success of the big move.

Finding a new game. This move entails creating an entirely new business model to replace an existing business that is dying, or to take advantage of a new technological or market opportunity. This requires substantive change on all three axes of the business model: what (the value proposition), who (the valuable customers) and how (the value chain of activities). The strategic key to success is not opportunism, but experience-based entrepreneurship. For example, when Nokia decided to reinvent itself as a telecoms and mobile phone company in the early nineties by divesting its other businesses, it created a new business

DOI 10.1108/10878570910941181 VOL. 37 NO. 2 2009, pp. 21-26, © Emerald Group Publishing Limited, ISSN 1087-8572

Exhibit 1



model for itself by betting exclusively on an already existing, small and fast developing telecoms division.

Going for growth. This move rolls out a business model that works, by developing the resources needed to adapt the value proposition to new markets and, then, riding the growth wave. The emphasis is on expanding the set of valuable customers. The strategic key to success is to quickly determine exactly what will create value for the customers in the new markets and avoid offering unvalued features and variety. This is what Nokia did between 1995 and 2000, when it rolled out its mobile phones worldwide. The Nokia standard bearer was its basic second generation GSM phone, and the company kept as much of the technology as possible constant but adapted its look and surface features to a global range of tastes and needs.

Getting into shape. This move requires reducing costs by increasing the efficiency of the value chain of activities and enhancing the value proposition through the way the offering is produced and delivered. The strategic keys to success are taking on the tough job of developing the capabilities needed for greater efficiency and then achieving alignment between the value chain of activities, the value proposition, and the valuable customers. Before Nokia rolled out its mobile phone division, it spent two years during 1993 and 1994 getting its logistics into shape.

Relaunching growth. This move is intended to increase revenues by redesigning the value proposition and/or adding new lines of business to serve well-defined growing markets. The strategic key to success is not trying to imitate the obvious competition and beat them at their own game, but doing something that's distinctive. This is the lesson that Nokia learned when it failed to trump existing competitors in online gaming and mobile media between 2001 and 2004 but then relaunched growth in 2005 and 2006 by adapting its value proposition and leading edge logistics to the rapidly growing emerging markets.

Restoring profitability. This move involves turning around loss-making activities by refocusing the business model on the core money-making parts of the business. Here the strategic key to success is not trying to escape from the problem by growing the top line and taking on more risk, but to engage in bold restructuring.

Question 2: Will the move exploit/enhance competitive advantage?

We all know that a strategic shift can only produce and sustain a breakthrough with superior returns on investment if it is based on a competitive advantage that competitors cannot easily copy. This advantage may be based either on capabilities (skills plus process and related culture) or on a special position on either the demand or supply side of the industry. Yet, many shifts are made without identifying a realistic competitive advantage. With the prospect of a big move in view, top managements too frequently underrate the adaptability of their competitors, only to see them jump ahead again soon after the move is made.

> "In Silicon Valley, venture capitalists like to say that the safest manager to bet on is an entrepreneur with two previous failures."

For example, many of the banks that invested heavily in subprime derivatives had no expertise in the evaluation of those instruments and were far removed from the origination and distribution of the underlying debt. In contrast, the banks that emerged in the best positions had derivatives capability and understood the link between the downturn in the US housing market and the value of the derivatives on their balance sheet.

Question 3: How big is the value creating opportunity?

A major commitment of resources only makes economic sense if the opportunity is large enough. Evaluating the profit opportunity is usually easier for moves involving cost reduction, as when restoring profitability, or getting a business into shape. But such evaluation is more difficult when a business is trying to boost top-line growth by finding a new game, going for growth, or relaunching growth. In the hopeful pursuit of higher revenues, top management may be too eager to believe that a market of eager customers awaits, a vision that often turns out to be a mirage. And even if the market materializes, not all revenue opportunities are profit opportunities. For example, when Nokia made a big move into computer gaming in the early 2000s, it saw a large market in mobile interconnected gaming that never really materialized. Before making the big move, smaller bets will likely be needed to test the market potential.

Question 4: Will the result be a better balanced business model?

Big moves often disrupt the balance between the resources devoted to the ''what'' (value proposition offered to customers), ''who'' (customers served) and ''how'' (chain of activities used to deliver the value proposition). To get focus and the best return on scarce resources, it is difficult to put equal weight on the what, who and how. Yet, success requires that the what, who and how are mutually reinforcing. If not, another move will be needed to restore the balance.

When ABB tried to find a new game in the mid-1990s and reinvent itself as an industrial software solutions company, by shedding its capital intensive power generation and railroad equipment divisions and acquiring software firms, it had neither the front-end customer consulting capability to sell solutions, nor the integrated operations needed to deliver solutions. ABB was soon forced to make another big move to reorganize into front-end customer-centric divisions while also undertaking a parallel big move to integrate operations with ''global processes.'' These two simultaneous big moves created a corporate disaster of confusion and gridlock that led the company to the brink of bankruptcy at the end of 2002.

Question 5: Will the move complement existing capabilities?

Implementing a big move requires supporting capabilities that cannot simply be acquired overnight. They have to be developed incrementally. Even an acquisition takes time to integrate into the existing corporate organization. The less experience the organization has with the new capabilities that are needed, the greater are the chances of failure. The closer the new capabilities are to essential skills the organization already has, the greater the chances of successful implementation. Prior to many big moves, smaller moves may be needed to develop the experience required to close the capability gap.

For example, ABB was an engineering products manufacturing company and it lacked the capabilities it would need to provide industrial software solutions. The attempt to acquire these capabilities through a series of acquisitions failed, because the acquisition integration process was ineffective and failed to provide a bridge between the existing and required new organizational culture.

Question 6: Do you have the right implementation process and leadership?

A smart implementation process and leadership capitalizes on and adapts to the forces of change and resistance. It doesn't try to battle needlessly against these forces. For example, big moves with a small window of time for execution demand faster implementation than those that leave more time for deliberate execution. Big moves that face strong resistance require a top-down process to break through the obstacles, whereas when people are able and willing to make the move, a bottom-up process creates commitment.

The big moves attempted at ABB faced so many obstacles and resistance that, even if they had been appropriately focused in terms of capability development and acquisition integration, they could not have succeeded without very strong leadership. But ABB's leadership was undermined by the tensions between Percy Barnevik, the previous CEO who became chairman of the board, and the new CEOs who followed Barnevik at the helm. Both of his successors, first Göran Lindahl and then Jörgen Centerman, hopelessly underestimated the difficulty in driving massive organizational change with a series of incremental task forces.

Each of the five big moves has its own particular ego-trap

Making big moves requires leadership ambition and self-confidence, but leaders often overestimate their abilities and underestimate the challenges involved. When they cross the line between confidence and arrogance leaders are in danger of falling into a set of ego traps. Each of the five big moves is associated with a particular form of hubris that often lures successful ambitious leaders into avoiding reality:

Opportunistic hubris. Those trying to find a new game often think they can run any business – all they need to find is a great opportunity. They fall into the trap of opportunistic hubris – they wrongly assume they can seize any opportunity, run any business. The banking boards and top teams who knew little about subprime and credit derivatives fell into this trap without even realizing the extent to which they were altering their business model.

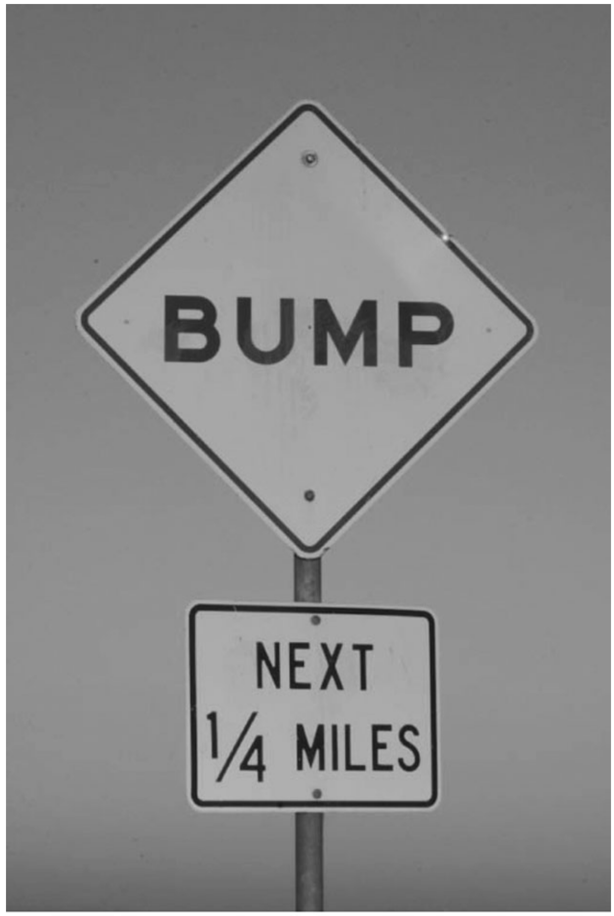
Inside-out projection. Those going for growth often overestimate their understanding of the market and believe they know what the market wants. They fall into the trap of inside-out projection – they wrongly assume they know what customers need. This often happens to initially successful hi-tech companies that are so in love with their technological prowess that they keep launching new products the market doesn't want, as Apple did in the early days with its Lisa and Newton products (Exhibit 2).

Me-too imitation. Those trying to redesign the value proposition to relaunch growth, often believe they can emulate and beat successful competitors at their own game. They fall into the trap of me-too imitation – they wrongly assume they can beat the competition no matter what they do. Those in the banking industry who came late to the subprime party and thought they knew what they were taking on believed they could match and trump the competition. This was especially reflected in the attitude of the CEOs of CitiGroup, UBS and Merrill Lynch.

Narcissistic denial. Those trying to get back into shape often believe they are doing better than they are, sometimes even refusing to believe that anything is seriously wrong. They fall into the trap of narcissistic denial – they wrongly assume there's nothing wrong with the business. When Apple ran into difficulty after its failed diversification into consumer

> **“Powerful sparring partners on the board or executive level that can raise the red flag of warning are essential.”**

Exhibit 2



© Alistair@eclicktick.com

electronics in the early nineties, company leaders had difficulty admitting their mistakes and didn't make any meaningful moves to correct the situation.

Raising the stakes. Those trying to restore profitability often believe they can avoid the pain of restructuring by growing their way out of the problem. They fall into the trap of raising the stakes – wrongly assuming they should never admit defeat, but instead always move forward. At Apple, instead of bold restructuring, top management tried to stay in consumer electronics, trim costs and make a big move into business computing, which resulted in large losses in the mid-nineties.

Calling for greater self-discipline, exhorting executives to be open to facts that don't fit their preconceptions, or open up time in their agendas to see, hear and understand analysis of what's actually going on in markets and consumers' minds, are good suggestions, but are likely to be futile. The adrenalin and energy needed to drive big moves make it almost impossible to calmly weigh the risks involved. More pointed checks and balances are required.

Two antidotes to hubris

Failure memory. The most effective source of self-discipline for ambitious leaders is the painful memory of a previous failure. In Silicon Valley, venture capitalists like to say that the safest manager to bet on is an entrepreneur with two previous failures. For example, when

Steve Jobs returned to lead Apple after being CEO of NEXT, he had been chastened by its failed product launch and was much more realistic. He was ready to focus on addressing markets that that already existed instead of investing in high-risk initiatives to invent wholly new categories of products. Such valuable executive experience contrasts starkly with the norm in the banking industry where careers are so short that each new generation of managers seems to have to relearn that you shouldn't lend money to people who can't pay it back. As evidence, one of the reasons Credit Suisse did much better then UBS in avoiding the sub-prime disaster was that its top leaders had more recent memories of previous investment and lending excesses.

Powerful sparring partners with red flags. Another effective way of avoiding the ego-traps is having sparring partners with sufficient personal and institutional power to block big moves that don't add up when their strategic logic is carefully analyzed. Most of the banks that did best in dodging the sub-prime crisis had boards of directors with more expertise in financial services. Powerful sparring partners on the board or executive level that can raise the red flag of warning are essential. In the words of a global company's CEO, ''if I have one yes-man on my team, I have one too many. I will fire him.'' When it comes to avoiding corporate disasters and increasing the chances of a smart big move, the credit meltdown has highlighted once again the need for real feedback at the top.

Corresponding author

Paul Strebel can be contacted at: Strebel@imd.ch